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TAX FOUNDATION'S MONTHLY VOL. 28, NO. 4 APRIL 1984

TAX·FEATURES

Tax Freedom Day—May 1!

CA, NY, TX Top List For Total Tax Burden Of U.S. Government

California, New York and Texas lead the pack again in fiscal year 1984 for the questionable distinction of having the largest Federal tax burdens in the nation. Predictably, the total dollar amounts taken in by Uncle Sam tend to be highest in states with the largest populations, explain economists at the Tax Foundation.

In fact, citizens in the ten most populous states will foot 57.6 percent of the total Federal tax burden, even though they have only 53.8 percent of the population. The total dollars involved are $373.2 billion. These "top ten," ranked in descending order of total Federal tax burden are:

CA	$76.9 billion
NY	$54.0 billion
TX	$47.1 billion
IL	$36.5 billion
PA	$32.8 billion
OH	$29.0 billion
FL	$28.5 billion
NJ	$26.2 billion
MI	$24.4 billion
MA	$17.8 billion

Sharply contrasting with the huge tax loads of the populous states is the tax burden borne by the ten smallest. The following contain about 3 percent of the population and will bear 2.9 percent of the Federal tax burden ($18.8 billion) in fiscal year 1984:

ME	$2.4 billion
DC	$2.3 billion
AK	$2.1 billion
ID	$2.0 billion
MN	$1.9 billion
DE	$1.9 billion
ND	$1.9 billion
WY	$1.7 billion
SD	$1.5 billion
VT	$1.2 billion

Per capita tax burdens impact the states differently, according to Tax Foundation analysts. They tend to correspond closely to individual levels of income, i.e., in states where individuals enjoy high personal income, tax burdens tend to be highest and vice versa.

(Continued on page 2)

First the good news. Tax Freedom Day is May 1, same as last year, according to Tax Foundation economists. This date marks the day the average taxpayer would finish satisfying obligations to Federal, state, and local governments if every dollar earned from January 1 went to the tax collector.

The bad news is that, since 1984 is a leap year, taxpayers will actually have to work one extra day—122 days instead of 121—to pay their tax bills. That additional day is needed, Foundation analysts say, despite a drop in the Federal tax bite. What Uncle Sam's tax cut leaves in taxpayers' pockets, state and local governments will take out, plus a little more.

Economists at the Washington-based tax watchdog organization also report that another milestone on the relentless climb toward higher taxes has been passed: 1984 marks the first year that total tax liabilities will exceed $1 trillion.

Worth noting in terms of the annual date of Tax Freedom Day in recent years, say Tax Foundation analysts, is that the day moved earlier in the year in 1982 for the first time since 1975. It was earlier still in 1983. Both decreases in the tax burden reflected the impact of the Economic Recovery Tax Act of 1981 (ERTA), modified somewhat by subsequent Federal tax increases.

The tax collector will claim an additional minute's worth of earnings from the typical worker's 8-hour pay

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Tax Bite in the Eight-Hour Day and Tax Freedom Day 1979-1984

Item	1979[r]	1980[r]	1981[r]	1982[r]	1983[p]	1984[f]
Taxes	2:41	2:43	2:46	2:41	2:39	2:40
Federal	1:48	1:49	1:53	1:47	1:43	1:43
State and local	:53	:54	:53	:54	:56	:57
Food	1:03	1:05	1:03	1:06	1:05	1:04
Housing and household operation	1:25	1:28	1:27	1:35	1:35	1:34
Clothing	:22	:22	:21	:22	:21	:21
Transportation	:42	:42	:41	:42	:43	:42
Medical care	:27	:30	:31	:35	:37	:36
Recreation	:19	:19	:19	:20	:20	:20
All other[a]	1:01	:51	:52	:39	:40	:43
Tax Freedom Day:	**May 3**	**May 4**	**May 6**	**May 3**	**May 1**	**May 1**

[a]Includes personal care, personal business, private education and research, religious and welfare activities, net foreign travel, and net savings.
[r]Revised.
[p]Preliminary.
[f]Forecast.
Source: Tax Foundation, derived from data supplied by U.S. Department of Commerce, Bureau of Economic Analysis.

Estimated Total and Per Capita Federal Tax Burdens, by State
Fiscal Years 1983-1985

State	Total burden (millions)			Per capita burden			State rank 1984	
	1983	1984	1985	1983	1984	1985	Total	Per capita
TOTAL	$580 619	$648,160	$724,097	$2,490	$2,757	$3,051	—	—
Alabama	7,204	8,085	9,031	1,819	2,033	2,259	25	48
Alaska	1,882	2,073	2,314	4,173	4,420	4,742	44	1
Arizona	6,391	7,162	8,008	2,198	2,412	2,639	28	35
Arkansas	3,929	4,447	4,965	1,714	1,940	2,166	33	50
California	68,758	76,894	85,894	2,742	3,013	3,304	1	13
Colorado	8,587	9,536	10,666	2,773	3,015	3,297	23	12
Connecticut	10,754	11,890	13,287	3,396	3,738	4,153	19	2
Delaware	1,692	1,880	2,099	2,801	3,103	3,447	47	8
Florida	25,429	28,468	31,803	2,388	2,600	2,821	7	27
Georgia	11,658	13,021	14,556	2,046	2,258	2,491	16	38
Hawaii	2,502	2,800	3,129	2,492	2,758	3,047	38	20
Idaho	1,804	2,041	2,280	1,856	2,083	2,307	45	46
Illinois	32,758	36,511	40,765	2,860	3,190	3,560	4	5
Indiana	12,544	14,000	15,639	2,296	2,572	2,880	12	29
Iowa	6,572	7,419	8,285	2,265	2,565	2,871	27	31
Kansas	6,321	7,077	7,909	2,609	2,903	3,219	29	15
Kentucky	6,962	7,823	8,730	1,898	2,135	2,383	26	44
Louisiana	10,348	11,504	12,853	2,344	2,569	2,825	20	30
Maine	2,167	2,435	2,718	1,910	2,142	2,386	42	43
Maryland	12,093	13,384	14,965	2,825	3,117	3,470	13	7
Massachusetts	15,931	17,764	19,836	2,750	3,061	3,409	10	9
Michigan	21,850	24,372	27,217	2,412	2,715	3,057	9	23
Minnesota	10,161	11,386	12,724	2,448	2,732	3,037	21	21
Mississippi	4,172	4,693	5,239	1,630	1,827	2,031	32	51
Missouri	11,303	12,656	14,137	2,278	2,548	2,840	17	32
Montana	1,723	1,946	2,173	2,138	2,402	2,663	46	36
Nebraska	3,582	4,038	4,511	2,251	2,532	2,818	35	34
Nevada	2,448	2,722	3,036	2,690	2,871	3,067	39	16
New Hampshire	2,380	2,642	2,954	2,477	2,716	2,996	40	22
New Jersey	23,602	26,229	29,305	3,164	3,508	3,906	8	4
New Mexico	2,767	3,096	3,459	2,007	2,205	2,419	37	39
New York	48,355	54,043	60,367	2,734	3,053	3,405	2	10
North Carolina	11,636	13,031	14,561	1,919	2,130	2,356	15	45
North Dakota	1,577	1,782	1,985	2,333	2,613	2,881	48	26
Ohio	26,012	29,005	32,406	2,412	2,695	3,014	6	24
Oklahoma	8,154	9,102	10,179	2,525	2,764	3,027	24	19
Oregon	5,965	6,725	7,508	2,249	2,534	2,825	30	33
Pennsylvania	29,305	32,761	36,584	2,471	2,768	3,093	5	18
Rhode Island	2,308	2,591	2,891	2,402	2,685	2,983	41	25
South Carolina	5,806	6,502	7,264	1,797	1,993	2,202	31	49
South Dakota	1,320	1,503	1,679	1,911	2,178	2,434	50	42
Tennessee	9,188	10,295	11,498	1,967	2,196	2,441	22	40
Texas	42,581	47,136	52,709	2,722	2,925	3,171	3	14
Utah	2,965	3,337	3,732	1,869	2,051	2,234	36	47
Vermont	1,056	1,191	1,330	2,039	2,294	2,552	51	37
Virginia	13,939	15,483	17,306	2,516	2,768	3,060	11	17
Washington	11,727	13,054	14,582	2,738	3,017	3,332	14	11
West Virginia	3,790	4,245	4,734	1,947	2,186	2,440	34	41
Wisconsin	11,085	12,405	13,853	2,317	2,583	2,870	18	28
Wyoming	1,504	1,675	1,872	2,931	3,185	3,461	49	6
District of Columbia	2,070	2,303	2,571	3,290	3,690	4,141	43	3

Source: U.S. total taxes as shown in the Federal budget submitted February 1984; computations of total and per capita tax burdens were made by Tax Foundation.

Monthly Tax Features

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(TAX BURDEN, from page 1)

In fiscal year 1984, residents in the ten states with the highest per capita tax burdens will pay approximately 26.3 percent of the tax bill, about $170.8 billion. Their average Federal tax burden, say Tax Foundation analysts, will be $3,276. Those residing in the ten states with the lowest Federal tax burdens will have an average Federal tax burden of $2,048, which works out to 8.3 percent ($53.9 billion) of the total.

"Top 10"		"Bottom 10"	
AK	$4,420	SD	$2,196
CT	$3,768	ME	$2,142
DC	$3,690	KY	$2,135
NJ	$3,508	NC	$2,130
IL	$3,190	ID	$2,083
WY	$3,185	UT	$2,051
MD	$3,117	AL	$2,033
DE	$3,103	SC	$1,993
MA	$3,061	AK	$1,940
NY	$3,053	MS	$1,827

The only major shift since fiscal year 1983 in the "Top 10" list is that Washington has dropped off and New York has been added. In the "Bottom 10," Vermont has dropped off for 1984 and South Dakota has been added.

Tax Foundation procedures for deriving these state estimates have been in use for more than twenty-five years and are revised annually. The listing is designed to show where Federal tax dollars actually originate, rather than where they are collected. By contrast, U.S. Treasury figures, which show where taxes are collected, do not always give as accurate a picture of the state-by-state impact of Federal taxation, according to Foundation economists.

An example of how the two methodologies differ appears in comparison of data related to the collection of Federal excise taxes on tobacco products. Treasury data show these taxes as collected mainly in a few southern states. However, Tax Foundation economists point out that the burden of these taxes may be assumed to fall on consumers of these products in all states, so that collections data do not show who is actually bearing the burden of these taxes.

The accompanying table provides details.

UNITARY TAX SEMINAR

"State Income Taxation of Multinational Corporations" is the topic of Tax Foundation's special seminar in Chicago, **May 10, 1984.** The all-day seminar will be held at The Westin Hotel in downtown Chicago from 9 a.m. to 4:30 p.m., and will feature experts on worldwide unitary taxation from government, business, academia, and the legal and accounting professions.

Dr. Charles E. McLure, Deputy Assistant Secretary of the U.S. Treasury, and the recently appointed Staff Director of the Treasury Department's Worldwide Unitary Taxation Working Group, is the featured luncheon speaker.

The $150 registration fee includes a reception during registration on the evening of May 9, the seminar, luncheon, and a copy of the Conference Proceedings.

For details or to register, contact immediately:
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How U.S. Spends Worker's Dollars

Where does a worker's Federal tax dollar go? Each year, analysts at the Tax Foundation ask that question. Their answer for fiscal year 1984 follows.

The worker chosen by economists at the Washington-based tax watchdog organization for 1984 earns $26,000, slightly above the median income for a one-earner family. That worker's total Federal taxes of $6,509 comprise the personal income tax ($2,227), social security tax ($1,742), and such indirect taxes as employer's share of social security taxes, corporate income taxes, and excise taxes on liquor, gasoline, tobacco, and air travel ($2,540). This is equivalent to more than 25 percent of our "typical" family's earnings.

The "big four"—income security, national defense, interest, and health—continue to claim more than 80 percent of the total when it comes to spending those dollars, although Tax Foundation analysis reveals some shifts in the composition of those four elements. Income security costs (social security, Federal employee retirement and disability, unemployment compensation, housing assistance, food and nutrition assistance) are estimated at $275 billion in 1984. This is less than 1983, largely because of an $11 billion decline in unemployment compensation costs. Foundation economists explain that the strong recovery has lowered costs because of a decline in the number of unemployed persons.

While income security outlays were dropping, the share of the budget—and of the taxpayer's dollar—claimed by national defense, interest, and health continued to edge upward. National defense will take $1,775 of his tax payment; net interest on the debt will claim $809; and health expenditures (including medicare) will take $685. The accompanying table lists the other expenditures for which the worker's tax dollars are allocated.

That's not the whole story, though, according to Tax Foundation economists. Having paid Uncle Sam $6,509 in taxes, the "typical" family must also assume its share of the estimated $184 billion budget deficit projected for 1984. For the family earning $26,000, that burden is an additional $1,845. The end result is that current taxes and borrowing together claim over 32 percent of the family's earnings.

(Continued on page 4)

"Current taxes and borrowing together claim over 32 percent of the family's earnings."

THE FRONT BURNER

By Robert C. Brown
President
Tax Foundation, Incorporated

"Tax Freedom Day—The Plus Side"

The high cost of government is a favorite whipping boy for just about everyone. At the Tax Foundation, the annual announcement of Tax Freedom Day has occasionally given us the opportunity to get our licks in. In a Democracy, whose roots go back to what was essentially a tax rebellion, biting the hand that taxes us has a long and hallowed tradition. However, that's not the whole story.

Tax Freedom Day—this year, May 1—has a plus side, a positive connotation, that can be lost sight of as the pain of taxpaying strikes home each April. Mr. Bill Sweisgood, editor of the editorial page of *The Florida Times Union* reminded us of this fact in an editorial he wrote for his newspaper last February 3. He observed, in part:

"During those four months, the schools are open, the police are patrolling, food bought in the grocery has been inspected and people without enough money are able to buy some of those groceries.

"Also, since Jan. 1 of this year, paychecks have been issued to the Marines who are unflinchingly standing guard in Lebanon.

"All of those costs are paid during the 'burdensome' days leading up to Tax Freedom Day. Another way to look at it would be to say that all of those expensive services are free from May 2 [1983's announced date] through Dec. 31.

"So maybe national notice of the day is called for—not in mockery but in thankful recognition of what has been achieved by 240 million Americans working together."

We applaud Mr. Sweisgood's sentiments, and are delighted to share them with readers of *Monthly Tax Features*. As we wrote him in acknowledging his editorial:

"Sometimes in our zeal that the good not be the enemy of the best, we fail to acknowledge what a marvel this nation is. Thanks for jarring our memories. The Tax Foundation's motto, since its founding in 1937, has been 'Toward Better Government Through Citizen Understanding.' One thing we need to understand is just how good our government is, indeed, how unique it is in the history of human political action."

Tax Freedom Day 1984—May 1—gives us all pause to count our blessings.

"One thing we need to understand is just how good our government is."

(TAX FREEDOM DAY, from page 1)

in 1984, Tax Foundation economists report. This year it will take 2 hours and 40 minutes to pay that worker's tax bill: 1 hour and 43 minutes for Federal taxes (same as last year) and 57 minutes to cover state-local taxes (a minute longer than last year).

On the plus side, according to Foundation analysts, the Federal tax bite from the 8-hour day is 10 minutes shorter than it was in 1981 and 4 minutes shorter than in 1982. The reason lies in the tax cut passed in ERTA in 1981. However, state-local taxes have gobbled up 4 minutes of the total savings included in that measure.

(WORKER'S DOLLARS, from page 3)

The table shown below gives a detailed breakdown of how Uncle Sam will spend the worker's tax dollar.

How the Federal Government Will Spend A Worker's Tax Dollars in Fiscal 1984[a]

Function	Worker's share: Amount	Worker's share: Percent of total	Total amount (millions)
Income security[b]	$2,055	31.58	$275,118
National defense	1,775	27.26	237,548
Net interest	809	12.42	108,239
Health[c]	685	10.53	91,729
Education, training, employment, and social services	214	3.29	28,683
Transportation	195	3.00	26,123
Veterans' benefits and services	193	2.96	25,799
International affairs	101	1.55	13,502
Natural resources and environment	92	1.41	12,302
Agriculture	80	1.23	10,693
General science, space, and technology	62	.95	8,291
Community and regional development	57	.87	7,594
General purpose fiscal assistance	50	.77	6,741
Administration of justice	45	.69	6,021
General government	42	.65	5,652
Commerce and housing credit	28	.44	3,805
Energy	26	.40	3,463
Total	$6,509	100.00	$853,760[d]

[a]In this example, the worker is the sole source of support for a spouse and two dependent children, and earns $26,000 per year.
[b]Includes social security.
[c]Includes medicare.
[d]After deducting $17,541 million for undistributed offsetting receipts not classified by function.
Source: Office of Management and Budget, and Tax Foundation computations, based on official budget estimates presented February 1, 1984.

Tax Freedom Day Selected Years, 1930-1984

Year	Tax Freedom Day
1930	February 13
1940	March 8
1950	April 3
1960	April 17
1970	April 28
1975	April 28
1980[a]	May 4
1981[a]	May 6
1982[a]	May 3
1983[a]	May 1
1984[b]	May 1

[a]Revised. [b]Forecast.

Major allocations, other than taxes, from a worker's 8-hour pay envelope include: 1 hour 34 minutes for housing and household operations (1 minute less than last year); 1 hour 4 minutes for food and beverages (4 minutes less); 42 minutes for transportation (1 minute less); and 36 minutes for medical care (1 minute less).

The accompanying tables give details for Tax Freedom Day and the tax bite from the 8-hour day.

Tax Bite in the 8-Hour Day Selected Years, 1930-1984

Year	Hours and minutes: Total	Federal	State and local
1930	:57	:17	:40
1940	1:29	:45	:44
1950	2:02	1:30	:32
1960	2:22	1:40	:42
1970	2:34	1:40	:54
1975	2:35	1:38	:57
1980[a]	2:43	1:49	:54
1981[a]	2:46	1:53	:53
1982[a]	2:41	1:47	:54
1983[a]	2:39	1:43	:56
1984[b]	2:40	1:43	:57

[a]Revised. [b]Forecast.

Toward better government Founded 1937

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State Tax Prospects, 1984

A Tax Foundation Staff Report

Previous legislative tax increases, together with a 15-month period of vigorous economic expansion, appear to have eased fiscal conditions in most states. Legislative sessions, expected to convene in 44 states in 1984, will act on tax revision proposals that would have only a negligible effect on overall state tax yields, although effects could be significant in a number of states.

A Tax Foundation survey in late March found that 18 states were considering tax increases totaling $3.1 billion annually, while 12 states were weighing tax reductions of $1.7 billion. Approval of all these proposals could bring about a net $1.4 billion overall rise. However, if measures to extend temporary sales tax increases are considered, along with the expiration of income tax surcharges, the net increase would be only $764 million, less than four-tenths of one percent of state tax revenues (see table).

Not all of the proposals now on the drawing boards will be enacted, and still others may be forthcoming during the year. It seems likely, however, that the result of legislative tax activity in 1984 will stand in sharp contrast to that of the three previous years, when a cumulative total of more than $16 billion annually in higher taxes was approved. One year ago, in fact, state legislatures were pondering tax-raising proposals aggregating more than $12 billion (see *Tax Review*, April 1983); by the end of 1983, $8.25 billion in higher taxes had been approved.

While tax revision in recent years has generally been coupled with spending restraint aimed at offsetting expected budget deficits, the 1984 proposals are in many instances linked to higher spending.

As a percentage of total state taxes, the proposed increases in at least seven states are quite significant, ranging from about 9% in Kentucky to 25% in Louisiana (based on 1983 collections). Other states with proposed increases of 10% or more include: New Mexico, Oklahoma, South Carolina, Tennessee, and Utah. Among the 12 states where tax reductions are under consideration, the most significant tax relief would take place in Michigan, where the phase-out of a temporary increase may be accelerated (saving taxpayers $430 million). (In Illinois, corporate and personal income taxpayers will find their tax bills lower by $848 million, as temporary surtaxes enacted last year expire on schedule.)

General sales taxes figure most importantly in the proposals for net increases ($1.3 billion), followed by motor fuels ($980 million), tobacco ($128 million), and alcoholic beverages ($90 million). Proposed reductions and expiring surcharges would, on the other hand, cut personal income taxes by $1.5 billion, even when proposed increases are taken into account. Corporate income taxes would also drop by a net $75 million.

Thirteen states are considering proposals to change general sales tax rates. Increases are under study in Louisiana (passed), New Mexico, Oklahoma (passed), South Carolina, Tennessee (passed), and Vermont. Temporarily higher rates would be extended in Arizona, Idaho, and Utah. Reductions are proposed in Colorado, Nebraska, Rhode Island, and Washington.

Eleven states are considering changes in personal income tax rates: rate hikes in Alabama, Kentucky, Missouri, and Vermont; and rate cuts in Indiana, Michigan, Minnesota, Nebraska, Rhode Island, West Virginia, and Wisconsin. In addition, temporary surcharges would be allowed to expire in Illinois and Pennsylvania.

Under 1984 legislative bills, corporate income tax rates would be raised in Alabama, Massachusetts, Missouri, Utah, and Vermont. On the other hand, Nebraska, Pennsylvania, and Wisconsin may have rate reductions. A temporary increase enacted in Illinois in 1983 is likely to expire on schedule.

Other taxes targeted for possible increases in 1984 include motor fuels (eight states); cigarette and tobacco levies (four states); alcoholic beverage taxes (five states); motor vehicle registration fees and drivers' licenses (three states); and other new or increased taxes (eight states).

1984 Major State Tax Proposals

Proposal	Revenue effect (millions)	No. of states
Increases	+$3,074	18
Decreases	− 1,712	12
Extension of temporary increases	+ 344	3[a]
Expiration of temporary increases	− 943	2[b]
Net change	+$ 764	30

[a]Sales taxes in Arizona, Idaho, and Utah.
[b]Income taxes in Illinois and Pennsylvania.

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Selected State Reports

In **Alabama**, the governor proposed hiking the flat-rate corporate income tax from 5% to 6% and raising the maximum personal income tax rate from 5% to 6%, with the increase structured so that there would be no rise in the income tax liability of the average married couple. He also proposed property tax changes, including a new 6-mill state property tax, along with liberalized exemptions for small homeowners and small farmers; and equalizing the 2.2% utility license tax.

In **Arizona**, where a special 1983 session raised the sales and use tax rate from 4% to 5% for the first half of 1984, the governor this year recommended extension of the increase for an estimated $240 million in new revenue in fiscal year 1984-1985. $25 million would be disbursed to the counties. The net $215 million state share, along with $40 million in anticipated additional Revenue Department collections, would be used to balance the 1985 budget. Early this year, the legislature approved higher taxes on tobacco and alcoholic beverages and imposed a 4% transfer tax on certain vehicles.

In **California**, state administrative actions combined with economic recovery changed an impending $1.5 billion deficit into an estimated $741 million surplus. This year's budget calls for no tax increases, although the governor recommended establishing a $950 million emergency fund to deal with unexpected future contingencies. Other proposals up for discussion in 1984 include an additional county sales tax (not to exceed .25%), imposition of which would require a majority vote of county boards of supervisors. A constitutional amendment has been proposed to shore up provisions of Proposition 13 that are said to have been eroded through court decisions.

This year **Colorado** legislators will consider reducing the state sales tax rate from 3.5% to 3.1%.

Connecticut's governor called for hikes in the gasoline tax (initially from 14¢ to 17¢, and then to 24¢ over a 10-year period), and in vehicle registration and drivers' license fees (initially by 25%, with license fees doubling over the decade). The chief executive proposed financing transportation improvements from a new transportation fund to which all motor use taxes and registration and license fees would be dedicated (transportation costs are now financed largely from the general fund). Revenues deposited in the new fund would provide backing for the bond sales to pay the state's $2.1 billion share of the combined $5.5 billion in Federal-state money to be used for financing transportation improvements over the next decade—roads, bridges, airports, rail and bus lines.

Delaware's governor proposed a personal income tax reduction, to be offset in part by a corporation franchise and fee increase. A new 1984 law exempts all social security benefits from the income tax.

In **Florida**, where taxes have been raised sharply during the past year and a half, the general fund balance at the end of fiscal 1985 is projected at $944 million. The governor pledged not to consider tax increases. Tax reduction proposals include repealing the worldwide unitary approach to corporate income taxation and reducing the property tax levied for schools. The major fiscal issue in 1984 is an initiative on the November ballot that would roll back state and local revenues to their 1980-1981 level (for an initial cutback of about 23%) and restrict future increases to two-thirds of the change in consumer prices. The measure, Proposition 1 or "Citizen's Choice," would also change the constitution to require that future tax increases above the set limits be approved by voters.

Despite ~~a~~ drastic reduction in the state's estimated surplus by the end of fiscal 1985, **Hawaii's** governor announced he would not support any tax increases this year.

Idaho's governor announced that his state had adequate revenue, plus a surplus, and did not require tax increases. He did call for maintaining the present 4.5% sales tax rate (scheduled to drop to 3% on July 1, 1984), or alternative measures to raise equivalent revenues, such as eliminating exemptions and extending the sales tax to additional services.

The governor of **Illinois** recommended that the personal and corporate income surtaxes enacted in 1983 be allowed to expire on June 30, 1984, as scheduled. He had originally advocated a permanent surcharge, but said this was no longer necessary in view of economic recovery. A proposal to reduce the state utility tax is on the ballot as an advisory referendum in a number of localities. One suggestion is to make up the anticipated $330 million revenue loss by cancelling the corporate investment tax credit, decoupling Illinois from ACRS, and imposing the worldwide unitary apportionment rule on multinational firms operating in Illinois.

Indiana's chief executive urged the state to retain its ranking as one of the "least taxing" states, and to consider tax cuts when possible. Stating that Indiana's fiscal health is still precarious, however, he opposed a proposal to revoke almost all of a personal income tax rate hike enacted in 1982.

Iowa's governor called for no major state tax hikes. He suggested property tax relief and asked the legislature to permit counties and cities to impose local option taxes. The legislature is likely to consider proposals to raise the motor fuel excise from 13¢ to 14¢, along with hikes in alcoholic beverage taxes and drivers' license fees. Other issues in Iowa include the use of highway fund monies to pay for general fund obligations and adopting the unitary approach to corporate income taxation.

With revenues from the new severance tax enacted in 1983 far exceeding earlier estimates, the governor of **Kansas** did not propose any additional taxes this year. He recommended a constitutional amendment to set up a limited property classification system for tax purposes.

Kentucky's new governor asked for major tax increases tied to substantial education reforms. Her tax-raising pro-

posals included increases in the corporate license tax rate, which has not been increased since 1926; extension of the sales tax to many services not previously taxed; higher income taxes on more affluent taxpayers, partly offset by an increase in personal exemptions; and repeal of a sunset provision of ACRS, thus increasing the state's corporate income tax revenues. The governor stated that a minimum of $98 million in new revenues would be needed in fiscal 1985 and $226 million or more in 1986.

Following enactment of a $136 million increase in personal income taxes during a special legislative session in December 1983, **Louisiana's** new governor convened a special session this year to consider over $1 billion in additional tax hikes. The adopted measures, totaling $740 million, include a 1% rise in the state sales tax, a doubling (from 8¢ to 16¢) in the gasoline tax rate; an increase from 11¢ to 16¢ in the cigarette tax; a new hazardous waste tax; and increases in levies on alcoholic beverages, insurance premiums, and on the severance of timber, sand, and gravel. Deductions for payment of Federal taxes would be eliminated by corporate income tax payers, while Federal ground rules would be applied to the oil and gas depreciation allowance.

Maine's governor called for no new taxes, but did recommend that the state get out of the retail liquor business (eliminating state-run stores), and stop allowing certain state employees to retire with full pensions after just 20 years of service.

This year **Maryland** legislators considered and did not enact proposals for a two-year 5% personal income tax surcharge, as well as a hike in the property tax to finance increased spending for education and a cleanup of the Chesapeake Bay. The only significant tax change still to be considered involves a restructuring of the corporate income tax for an added $10 million per year.

The governor of **Massachusetts** recommended a plan to finance the reconstruction of public projects, including highways and bridges, through a new agency called Massbank. His proposal would increase the corporate profits tax rate by an average of about .5%, raising almost $300 million over three years. Massbank would use the funds to guarantee about $1 billion in revenue bonds that would finance the capital improvement projects. As a trade-off for higher corporate tax rates, the governor agreed to restrict the corporate tax to earnings in the United States, eliminating the levy on foreign profits.

Calling for a "zero increase" spending plan with no tax hikes, **Michigan's** governor proposed that the January 1, 1985 date for the expiration of the temporary income tax increase enacted in 1983 be accelerated to October 1, 1984. He argued against a more hasty rollback because it would be "taking chances with the security of Michigan and its people." Another proposal has been submitted to raise personal income tax exemptions from $1,500 to $4,400 and to index exemptions for inflation. There is a grass-roots movement to place on the November ballot a measure (Voter's Choice) to repeal all state and local revenue increases approved since 1983 and to require voter approval or four-fifths approval by a legislative body for future measures.

Urging an overhaul and modernization of the state tax structure, **Minnesota's** governor recommended repeal of the temporary 10% surtax on personal income effective July 1, 1984 (under current law the surtax would drop to 5% on January 1, 1985, and expire June 30, 1985); repeal of the state share of the estate tax; repeal of the unitary approach to taxing corporate income; and the enactment of several business tax incentives to spur international trade.

In **Mississippi**, where a special legislative session in November 1983 hiked the state sales tax rate from 5% to 6%, the governor this year urged legislators to develop a budget requiring no tax raises. However, he did not completely rule out a tax increase if it were necessary to fulfill the state's obligation to provide essential services.

A special 1983 legislative session in **Missouri**, which ended in mid-December, failed to enact tax increases, but did approve a tax acceleration bill. This year proposals will be considered to impose a 10% personal income tax surcharge, raise the corporate income tax rate from 5% to 7%, and increase the corporate franchise tax.

In **Nebraska**, an improving economy and higher tax rates enacted a year ago have combined to generate more revenue than was anticipated leading to an estimated surplus of $100 million in fiscal 1985. Various proposals are afloat that would give back some of recent increases, including reductions in personal and corporate income taxes and a cut in the sales tax rate (coupled with broadening the sales tax base).

New Jersey's governor did not call for tax hikes, but did advocate a 10-year plan to finance transportation projects by issuing $3.3 billion in revenue bonds. The legislature would pledge to appropriate $88 million annually for a decade, to be combined with $30 million per year from increased truck registration fees, and $25 million from tollroad surpluses so as to attract maximum Federal highway aid.

Arguing for an "educational enrichment program," the governor of **New Mexico** proposed a package of tax measures that would have the net effect of raising revenues by $173 million in 1985 and more in later years. Increased revenues would come largely from his proposal to raise the sales tax; partly offsetting were his suggestions for simplifying the personal income tax deduction for taxpayers 65 years old or over and increasing the low-income tax credit.

The governor's budget message in **New York** rejected broad-based tax increases as discouraging economic development, and specifically criticized the unitary tax concept. He did call for a sports betting plan to raise $100 million for public education (the constitutionality of which was challenged), along with a jobs creation tax credit and uniform property tax exemption for veterans. Other issues to be considered this year include raising personal income tax exemptions, and possibly reducing top marginal rates; capping the utility tax; lowering the bank tax; and uncoupling the business and personal income taxes from Federal provisions.

Following the enactment of $770 million in higher taxes last year, **Ohio's** governor told the legislature in January 1984: "I have not come here today to ask for more money or resources." Tax proposals in 1984 are expected to be minimal. There are suggestions to increase the cigarette tax and to exclude social security benefits from taxable income under the state tax. (In November 1983, the voters turned down a proposal that would have revoked all tax increases approved in 1983.)

In **Oklahoma**, where a special session in November 1983 turned down proposals by the governor for $650 million in additional taxes, this year's regular session raised the sales tax rate from 2% to 3%, effective February 15, 1984, through December 31, 1985; hiked the motor fuels tax and truck license fees; and extended sales tax coverage to cigarettes and 3.2% beer.

The governor of **Pennsylvania** proposed lower income taxes for businesses and individuals. The corporate levy would be reduced from 10.5% to 9.5%, and the temporary personal income tax rate hike approved last year would be allowed to expire as scheduled at the end of June 1984. The governor signed into law a bill exempting 4,000 smaller firms from corporate income tax; henceforth, small enterprises will pay at the much lower personal income tax rate of 2.45%.

Proposals in **Rhode Island** would reduce the sales tax rate (from 6% to 4%) and the personal income tax rate (from 26% to 23.8% of Federal tax liability). As a means of financing economic development, however, some increases are being considered: a .063% payroll tax and a 1.2% personal income tax surcharge.

In **South Carolina**, the governor recommended a hike in the sales tax rate from 4% to 5% with revenue earmarked for "quality education." Other proposals would raise the maximum personal income tax deduction allowed for payment of Federal income taxes from $500 to $1,000, and impose a 10% surcharge on sales of alcoholic beverages. A constitutional amendment to limit both taxes and expenditures is up for consideration.

Tennessee's governor recommended a 1¢ increase in the sales tax with the added funds dedicated to improvement of education, along with other tax increases. In February, he signed into law measures that raised the sales tax from 4½% to 5½% from April 1, 1984, through June 30, 1985, but gradually phased out the rate on food sales to zero by June 1, 1987; increased the corporate franchise tax; raised insurance premiums tax rates applicable to many insurers; and reduced the sales tax collection discount allowed to dealers.

In **South Dakota**, the general sales tax would be extended to cigarette sales, but prescription medical equipment would be exempted. Changes would be made in taxation of precious metals. Cigarette excise taxes would rise from 15¢ to 20¢ a pack. A temporary 1¢ increase in the motor fuel tax would be continued indefinitely.

Although **Texas** will have no regular legislative session this year, the governor is expected to call a special session to consider tax hikes to raise additional funds for public education and highways. Proposals likely to be considered are a doubling of the gasoline tax from 5¢ to 10¢ a gallon (or a 10% pump price tax), an average $25 increase in motor vehicle registration fees, and broadening the base of the sales tax. The governor's blue-ribbon select committee on public education is expected to recommend an across-the-board increase in teacher salaries and major reforms in curriculum and other aspects of public education.

In February this year the governor of **Utah** approved four measures, raising the fuel, franchise, net income, and severance tax rates and extending increases in sales tax rates that had been scheduled to expire.

The governor of **Vermont** recommended tax increases and other changes to liquidate the deficit in two years. He asked that the state personal income tax no longer be levied as a percentage of the Federal tax liability, but that a new plan be established whereby the state would use Federal brackets, but apply its own rate schedule. He also proposed increases in corporate income tax rates to a range of 6% to 9% (from the current 5% to 7½%) and an increase in the sales tax rate from 4% to 4½%, along with other changes.

In announcing a budget that would not require either general tax increases or bond issues, **Virginia's** governor called for reduction in the long-term tax burden on nearly every manufacturer in the state. He urged an immediate tax reduction, followed by a constitutional amendment, completely exempting manufacturers' inventories from ad valorem taxation.

Various bills were submitted in this year's **Washington** legislative session to reduce the sales and business and occupation tax rates (some suggestions would tie a lowering of the sales tax levy to the level of state revenues). Other recommendations would repeal a scheduled hike in the motor fuel tax rate, and reduce the severance tax rate on timber.

West Virginia's budget for fiscal 1984-1985 is declared as balanced without tax increases. The governor proposed a constitutional amendment to be placed on the November 1984 ballot to authorize a $600 million bond issue to finance school building construction. Various fiscal measures are under discussion, generally calling for income tax reductions.

Wisconsin's governor proposed a stabilization fund with an initial appropriation of $50 to $75 million, to help tide the state over future fiscal difficulties. Up for consideration are proposals to repeal the 10% personal and corporate income surtaxes nine months before scheduled expiration; substitute a phased-in pick-up or "gap" estate tax for the present inheritance tax; and liberalize the income tax exclusion for capital gains (under present law, 40% of capital gains are taxed).

This year's tax proposals in **Wyoming** involve a proposed optional local 1% retail sales tax which could raise $76 million annually.